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Report of the Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East*

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* In accordance with paragraph 1, section C of General Assembly resolution 54/248, this report is being submitted on 3 October 2001 following its adoption by the members of the Working Group on the Financing of UNRWA.

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I. Introduction

Origin and background of the Working Group

1. The Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established by the General Assembly under resolution 2656 (XXV) of 7 December 1970 to study all aspects of the financing of the Agency. In that resolution, the General Assembly requested the Working Group to assist the Secretary-General and the Commissioner-General of UNRWA in reaching solutions to the problems posed by the Agency's financial crisis.

2. At the twenty-fifth session and all those that followed, the General Assembly considered the reports submitted to it by the Working Group[1] (most recently A/55/456) and adopted resolutions commending the efforts of the Working Group and requesting it to continue them for a further year (most recently resolution 55/124).[2]

3. The Working Group consists of the representatives of France, Ghana, Japan, Lebanon, Norway, Trinidad and Tobago, Turkey, the United Kingdom of Great Britain and Northern Ireland and the United States of America. The Chairman of the Working Group is Mehmet U. Pamir (Turkey).

II. Activities of the Working Group during 2001

4. Throughout the year, the members of the Working Group have followed with concern the difficulties experienced by the Agency and, in particular, the serious financial situation it continued to face. The Working Group held two meetings, on 14 September and 3 October 2001, to consider the recent developments in the Agency's financial situation and to prepare its report to the General Assembly. The Working Group adopted its report at its meeting on 3 October 2001.

5. At an informal meeting, on 14 September 2001, the Working Group heard the Commissioner-General of UNRWA, who submitted an up-to-date report on the financial situation of the Agency. The Working Group gave further consideration to the report of the Commissioner-General at its 125th meeting, on 3 October 2001 (see chap. III below).

III. Financial situation of the United Nations Relief and Works Agency for Palestine Refugees in the Near East

6. UNRWA once again faced a critical financial situation in 2000, which has continued into the present year. In 2000, UNRWA had an income of $270.9 million, of which $256 million was for the cash portion of the regular budget and $14.9 million for the in-kind portion. These funds were received against a regular budget of $300.9 million, of which $280.4 million represented the cash portion and $20.5 million the in-kind portion, leaving a deficit of $24.4 million in the cash budget ($280.4 million minus $256 million).

7. In cash terms, the Agency ended the year 2000 with no cash for its General Fund. The $34 million in cash appearing in the Agency's financial statement for the year ended 31 December 2000 were earmarked contributions for non-regular budget activities, namely projects and the emergency appeal launched in November 2000. The Agency has dealt with deficits in the cash budgets in recent years by adopting a series of austerity measures and cost reductions coupled with the use of the Agency's working capital (the difference between assets and liabilities in the regular budget for a calendar year). In view of the above, the only reserve that UNRWA has, namely its working capital, was fully depleted in 1999, and stood at negative $4.9 million at the end of 2000. This level of working capital reserves fell far short of the minimum level of $28 million, representing average monthly expenditure, of which $17 million was for the Agency's payroll for some 22,000 area staff.

8. Since cash income in 2000 fell far short of the regular budget, the Agency was obliged to reduce expenditure to match income and could not allocate any funds towards building up the working capital or salary reserve. The adoption of the 1999 Area Staff Rules in the year 2000 led to considerable savings on area staff costs, which partly offset lost income owing to the exchange rate losses incurred in that year.

9. Repeated funding shortfalls in recent years have severely eroded the cash position of UNRWA, as

measured by the amount of cash on hand that could be used to meet basic obligations. Yet, there were still at the end of 2000 outstanding and unpaid pledges amounting to $22 million: $5 million pertaining to the regular budget and $17 million to project funding. Further strain was exerted on the cash position of UNRWA by the non-reimbursement of amounts owed to the Agency, namely $19.9 million paid by UNRWA for the value-added tax (VAT) and due for reimbursement by the Palestinian Authority and $6.1 million paid by UNRWA for port charges due from the Government of Israel. There also remained a shortfall in funding for the European Gaza Hospital, and a deficit of $5.1 million in the account set up to fund the costs of transferring UNRWA headquarters from Vienna to Gaza and Amman. That move was completed in 1996 but the budget for it remained underfunded and costs had to be met on a temporary basis from other accounts.

10. By the end of June 2001, the Agency faced the prospect of a deficit in its regular cash budget for the current year of $66 million by the end of the year. However, additional contributions from the Agency's major donors have reduced this deficit to $31 million by 25 September 2001. Income for 2001 was expected to be $280 million, against a cash budget of $311 million. Addressing an informal meeting of the Working Group in New York on 14 September 2001, the Commissioner-General of UNRWA said that, as in previous years, the Agency faced not only a budgetary deficit of $31 million, but also was concerned about a very low cash position which threatened the ability of UNRWA to meet its commitments in the remaining quarter of 2001. Of the $280 million expected income for the 2001 regular cash budget, some $65 million remained outstanding on 25 September 2001. UNRWA had hoped that the 2001 budget would be fully funded, affording an allocation towards rebuilding the Agency's working capital and allowing a modest salary increase for the Agency's 22,000 area staff, who have not had a salary increase since 1996.

11. On 25 September, at an informal meeting of the Agency's major donors and authorities hosting the refugees, held at Amman, the Commissioner-General said that, while contributions from most donors had increased in terms of their national currencies since 1995, the increases had not offset the negative impact of exchange rate fluctuations against the United States dollar, the main currency of expenditure. He noted that, in the year 2000, the Agency had lost about $11.5 million in income, mainly as a result of the devaluation of one currency, the euro, against the United States dollar. While around 60 per cent of the Agency's income is received in euros, most of the Agency's expenditure is in United States dollars or currencies with a fixed exchange rate against the United States dollar.

12. In recent years, the Agency's major donors have responded repeatedly and generously to the special appeals made by the Secretary-General and the Commissioner-General for the funding of the regular and project budgets of UNRWA. Once again, in 2000 and 2001, the Commissioner-General and his colleagues have made strenuous efforts to keep donors informed, through the sharing of quarterly financial reports and the holding of regular consultations with donors and the host authorities. At the same time, the Agency continued to try to attract a reliable, sustainable flow of funds so that stopgap measures were not depended upon to meet ongoing and growing funding needs. In that context, UNRWA had appealed to donors to make payments of pledged contributions earlier in the calendar or budget years, and to ensure the payment of pledges on time.

13. Since late September 2000 and in response to the current situation of conflict and strife in the West Bank and Gaza, where around 1.45 million Palestine refugees reside, UNRWA issued several emergency appeals requesting donor contributions over and above those allocated to the Agency's regular programmes. The Agency had issued a flash appeal for $4.83 million on 4 October 2000, a first appeal for $39.1 million to cover the three-month period from December 2000 to February 2001, a second appeal for $37.1 million to cover the period from March to May 2001, and a third appeal, for $76.8 million to cover the period from June to December 2001. The Working Group welcomed the generous and prompt response by donors to the flash and first appeal at the level of $46.1 million (105 per cent). The response to the second appeal fell short of the target by $14.1 million. Contributions for the third appeal have been slower, and pledges amounted to $38.1 million on 20 September 2001. Of the total $160 million requested in the three emergency appeals issued in November 2000, February 2001 and June 2001, UNRWA has received confirmed pledges amounting to around $108 million. As was the case with the Agency's regular programme, not all pledged

amounts were received by the Agency, thus further straining its cash flow situation. The $76.8 million requested under the third emergency appeal was for food aid, medical supplies, the creation of temporary employment opportunities, physiotherapy, compensatory educational activities, psychological counselling and other humanitarian interventions. The $38 million gap between total requirements for the third appeal and amounts pledged has prevented the Agency from ordering the various food commodities needed, thus delaying several of the planned emergency food distributions in the West Bank and Gaza. The Agency's strained cash flow situation coupled with the absence of any working capital have prevented the Agency from advancing other funds towards meeting those requirements pending the receipt of donor contributions to fund those activities.

14. The Commissioner-General told the Working Group on 14 September that a new budget format adopted by the Agency for the biennium 2002-2003 had been well received by the Advisory Committee on Administrative and Budgetary Questions which subsequently recommended its approval by the General Assembly. That recommendation was also endorsed by the Agency's Advisory Commission at its meeting held on 25 September 2001.

15. The budget requirements of UNRWA for the biennium 2002-2003, estimated at $791.7 million, are to be approved by the General Assembly at its fifty-sixth session. Of the $791.7 million biennial allocation, $386.3 million is allocated for 2002. Of this amount, $308.8 is for the cash element of the regular budget, some $22 million for the in-kind element of the regular budget and $55.5 million for projects. Budgetary requirements for the year 2003 is $405.4 million, of which $321.1 million is for the cash portion of the regular budget, $22.9 million for the in-kind part and $61.4 million for projects. The proposed budget for the biennium 2002-2003 reflected the bare minimum funding requirements needed to sustain essential services at the current level and to cater for additional funding requirements which resulted from the integration of new programmes included by the host authorities.

16. Compared with the 2000-2001 biennium, the proposed budget reflected an overall nominal growth of 9 per cent (that is, 4.5 per cent per annum). In real terms, that represented a negative growth of 3 per cent per annum, as the Agency faced an annual growth of 3.5 per cent in its clientele population driving a similar growth in staff and financial requirements, and an annual weighted average rate of inflation in the UNRWA area of operations at 4 per cent.

IV. Concluding remarks

17. The Working Group is once again deeply concerned about the financial prospects for UNRWA; in particular after eight years of austerity measures which have eroded the level and quality of the services provided by the Agency for some 4 million Palestine refugees. The Group emphasizes that it is the responsibility of the international community to ensure the maintenance of UNRWA services at acceptable levels, in terms of quantity and quality, as defined by the needs of the refugee community, and to ensure that service levels keep pace with the steady natural growth of the refugee population.

18. The Working Group appreciates that UNRWA has made significant progress towards eliminating the structural deficit problem that plagued the Agency in the previous years, in particular through the introduction of the 1999 Area Staff Rules, reductions in international staffing and other reforms. The Group commends the Commissioner-General and all UNRWA staff for their tireless efforts to maintain the basic operations of the Agency, despite the constraints on the availability of resources that they have faced. It commends the Commissioner-General also for his fund-raising efforts and for his commitment to keeping the major donors and host authorities informed and involved, opening new avenues of support and funding and seeking a broader base of donors. The Group calls for the early and complete fulfilment of pledges and other commitments to the Agency, in particular the reimbursement of value-added tax and port charges by the Palestinian Authority and the Government of Israel and the payment of funds for the European Gaza Hospital and for the move of UNRWA headquarters to the area of operations. With reference to the move of UNRWA headquarters from Vienna to Gaza and Amman, the Working Group took note of the opinion of the Agency's Advisory Commission expressed in the letter dated 25 September 2001 from its Chairman to the Commissioner-General that the "amount in question should be paid to the Agency by the United Nations as soon as possible". As no additional donor contributions have been received towards the move of

UNRWA headquarters since 1996, and the Agency completed the move in accordance with instructions from United Nations Headquarters, the Working Group fully supports the view expressed by the Advisory Commission's letter to the Commissioner-General of UNRWA, namely that the $5.1 million outstanding with respect to expenses incurred by the Agency on the move of its headquarters to Gaza should be paid to the Agency by the United Nations as soon as possible.

19. The Working Group expresses alarm at the continuing negative effect successive austerity measures adopted in previous years have had on the Agency's humanitarian operations. The Group noted with concern that the Agency's expenditure per refugee dropped from an average $200 per year in the 1970s to less than $70 per year in the 1990s. Successive funding shortages and subsequent austerity measures and cost reductions have prevented programmes from expanding at a rate commensurate with the growth in the refugee population, necessitated curtailments in ongoing programme activities, and precluded certain actions which would normally be part of the Agency's regular programme of work. Most seriously, these measures have led to increased class sizes in Agency schools, rising patient/staff ratios in the health services, and higher caseloads for social workers dealing with the poorest refugees.

20. While the Working Group was pleased to note the positive impact the introduction of the 1999 Areas Staff Rules has had on UNRWA staff costs, as well as the added benefit of regularizing conditions of employment for staff who had been working on temporary contracts, the Group expressed concern about the Agency's reduced attractiveness as an employer of qualified staff as a result of the reduced remuneration package offered under the 1999 Area Staff Rules.

21. The Working Group is also concerned that the continued freeze on former regular budget allocations, such as university scholarships and rehabilitation of shelters, have not only reduced the number of the Agency's activities in those areas, but made them dependent on extrabudgetary contributions. Similarly, cuts in allocations for maintenance of facilities have led to the deterioration of the Agency's extensive physical assets; and that reductions in hospitalization allocations have meant that some patients who require hospital care may be unable to receive it. The Group is gravely concerned at the impact of these measures on the lives of Palestine refugees, in particular in the areas of education and health care. The Group fears that additional austerity cuts could cause severe economic and social hardship to an already suffering refugee population, and that this would place an increased burden on the authorities hosting the refugees. The Group continues to believe that UNRWA plays a vital role in preserving the stability and security of the region, and that adequate funding of the Agency's programmes is essential to ensuring this.

22. In order to enable UNRWA to fully implement the emergency assistance to Palestine refugees in the West Bank and Gaza envisaged under the Agency's third emergency appeal, the Working Group appeals to the international community to do its utmost to meet the target of $76.8 million for the third appeal as soon as possible.

23. The Working Group agrees that the problem of the refugees is deeply rooted in a political issue which originated more than half a century ago, and that it remains essential to settle this problem once and for all in accordance with all relevant United Nations resolutions. The problems faced by the refugees today are, however, humanitarian ones that must be addressed as a shared international responsibility. The services provided by UNRWA must be viewed as the minimum required to enable the refugees to lead decent human lives. Any further reduction in those services would not only unfairly deprive the refugees of the minimum level of support to which they are entitled, but could also have a destabilizing effect on the entire region. Above all, the Group expresses the hope that the international support for UNRWA embodied in the resolutions adopted each year by the General Assembly, in which the Assembly recognizes the importance of the work of the Agency and requests that Governments contribute to it, should be translated into measures to ensure the survival of the Agency on a secure financial basis.

24. The Working Group therefore strongly urges all Governments to bear in mind the foregoing considerations when deciding upon the level of their contributions to UNRWA for 2002, and once again:

(a) Urges Governments that have not yet contributed to UNRWA to start to do so;

(b) Urges Governments that have so far made only relatively small contributions to increase their contributions;

(c) Urges Governments that in the past have made generous contributions to UNRWA to continue to do so in a timely manner and to strive to increase them;

(d) Urges Governments that traditionally have shown special interest in the welfare of Palestine refugees, both in the region and beyond, to begin contributing or to increase their contributions;

(e) Urges Governments to consider making special contributions sufficient to cover the deficit and build up working capital, so that UNRWA services can continue uninterrupted and the Agency can restore services cut as a result of the austerity measures, and to ensure that donor support of emergency-related and special programmes or capital projects does not in any way decrease or divert contributions to the Agency's regular programme.

Notes

[1] For the consideration of the most recent report of the Working Group (A/55/456), see A/55/570.

[2] The most recent resolution being General Assembly resolution 55/124.